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HOUSE BILL 2282

State of Washington

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58th Legislature 2003 1st Special

Session

By Representatives Grant, DeBolt, Sommers, Clements, Gombosky, Mielke and Fromhold

Read first time 05/19/2003. Referred to Committee on Commerce & Labor.

AN ACT Relating to the Washington state lottery commission's regulation of licenses for electronic scratch ticket gaming to specific licensees under RCW 9.46.0311 and 9.46.0325 and class I horse racing facilities under chapter 67.16 RCW; amending RCW 67.70.010 and 67.70.040; adding new sections to chapter 67.70 RCW; creating a new section; and declaring an emergency.

7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. Sec. 1. Under the current regulatory and statutory authority, electronic scratch ticket gaming is authorized, but has failed to maximize revenues that are generated from this form of entertainment because the games are not issued by the state. Current budgetary constraints compel review of existing regulatory processes to assure implementation of state laws in both a fiscally accountable manner, and in a manner that protects public health, safety, and welfare. The public health, safety, and welfare benefit by limiting electronic scratch ticket gaming to venues that already are licensed to conduct gaming and where the presence of minors is prohibited.

In furtherance of this purpose, the legislature declares that electronic scratch tickets are a legal form of gambling in the state of

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Washington. In addition, any electronic games approved under RCW 9.46.360 are authorized to the same extent and in the same manner as electronic scratch tickets are owned, operated, and regulated under this act.

The legislature finds this act will assist in job creation and retention, and is necessary for the immediate preservation of public health and safety and the support of state government and its existing public institutions as it is intended to generate revenue appropriated in the 2003-2005 biennium. The additional revenue forecasted under this act is intended to provide for the health, education, and welfare of the residents of the state of Washington.

Sec. 2. RCW 67.70.010 and 2002 c 349 s 1 are each amended to read 13 as follows:

For the purposes of this chapter:

- (1) "Cashless transaction system" means the method by which a player obtains, transfers, and redeems game play credits. The cashless transaction system permits a player to play the electronic scratch system without inserting cash, including coins, tokens, or paper currency, into, and to win game play credits from, the player terminal. The player terminal shall not dispense cash, but shall only dispense game play credits available to the player and game result information;
- (2) "Central accounting and auditing computer system" means a computer system or systems operated by the commission that provide a secure means to monitor, receive, store and access data, and record critical functions and activities of the player terminals;
- (3) "Central computer" means a computer or computers that conduct random drawings for electronic scratch ticket games and stores and dispenses electronic scratch tickets from scratch ticket game subsets that have been loaded into it from a manufacturing computer and are maintained in a secure manner;
- (4) "Commission" means the state lottery commission established by this chapter;
- $((\frac{2}{2}))$ (5) "Director" means the director of the state lottery 34 established by this chapter;
- 35 (((3))) <u>(6) "Electronic scratch ticket" means a predetermined</u> 36 winning or losing outcome in electronic form. Each electronic scratch

ticket represents a chance from among the finite set of chances that comprise an electronic scratch ticket game set;

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- (7) "Electronic scratch ticket game" means a scratch ticket lottery game, together with its respective operating system or systems, that is played in an electronic environment. A game has a specific set of rules including: The theme and types of symbols used; the total number of tickets in the game; the ratio or mix of winning and losing tickets; the prize structure, including number and dollar value of each prize; and the price of a single ticket. The game is played by use of computer hardware and software to manufacture, store, distribute, sell, and display scratch tickets to players. An electronic scratch ticket game includes: The licensed systems that are connected to an electronic central accounting and auditing computer system within the commission's control; a cashless transaction system; player terminals with video displays that allow players to purchase chances and obtain game result information; a manufacturing computer that securely creates the finite set of chances used in the scratch ticket portion of the system; and a central computer containing an electronic accounting system. The electronic scratch ticket game contains preexisting scratch tickets that are dispensed in an electronic format to players through the player terminals on an on-demand basis;
- (8) "Electronic scratch ticket game set" means a finite set of electronic scratch tickets that is based on a template that has been designed in accordance with a specific set of rules, including the basic requirements of game sets and subsets, governing the structure of an electronic scratch ticket game. Based on that template, an electronic scratch ticket game set is created in a manufacturing computer in a secure and verifiable electronic form before the play of an electronic scratch ticket game. Each electronic scratch ticket game set is uniquely identifiable, by serial number or otherwise, so that it can be distinguished from other game sets manufactured from the same template. All electronic scratch tickets in a particular game set shall be of the same price, not to exceed five dollars, but a single ticket may offer more than one opportunity to win a prize on the same wager;
- (9) "Electronic scratch ticket game subset" means a defined group of electronic scratch tickets that has been randomly selected from an electronic scratch ticket game set and transmitted to a central

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computer in a fixed order for play. Each electronic scratch ticket
game subset is uniquely identifiable from all other subsets selected
from the game set;

- (10) "Game play credits" means the method of representing value obtained from the exchange of cash or cash equivalents, or earned as a prize, that is used to effectuate play. Game play credits may be redeemed for cash or a cash equivalent;
- (11) "Lottery" or "state lottery" means the lottery established and operated pursuant to this chapter;
- ((+4))) (12) "Net win" means gross wagers received by a licensee from the operation of an electronic scratch ticket game system less the amount paid to players for winning wagers, the actual cost of merchandise prizes awarded, accrual of prizes for progressive jackpot contests, and repayment of amounts used to seed guaranteed progressive jackpot prizes;
- (13) "On-line game" means a lottery game in which a player pays a fee to a lottery retailer and selects a combination of digits, numbers, or symbols, type and amount of play, and receives a computer-generated ticket with those selections, and the lottery separately draws or selects the winning combination or combinations;
- (((+5))) (14) "Shared game lottery" means any lottery activity in which the commission participates under written agreement between the commission, on behalf of the state, and any other state or states.
 - Sec. 3. RCW 67.70.040 and 1994 c 218 s 4 are each amended to read as follows:

The commission shall have the power, and it shall be its duty:

- (1) To promulgate such rules governing the establishment and operation of a state lottery as it deems necessary and desirable in order that such a lottery be initiated at the earliest feasible and practicable time, and in order that such lottery produce the maximum amount of net revenues for the state consonant with the dignity of the state and the general welfare of the people. Such rules shall include, but shall not be limited to, the following:
- 34 (a) The type of lottery to be conducted which may include the 35 selling of tickets or shares. The use of electronic or mechanical 36 devices or video terminals which allow for individual play against such

devices or terminals shall be prohibited. Approval of the legislature shall be required before entering any agreement with other state lotteries to conduct shared games;

- (b) The price, or prices, of tickets or shares in the lottery;
- (c) The numbers and sizes of the prizes on the winning tickets or shares;
 - (d) The manner of selecting the winning tickets or shares;

- (e) The manner and time of payment of prizes to the holder of winning tickets or shares which, at the director's option, may be paid in lump sum amounts or installments over a period of years;
- (f) The frequency of the drawings or selections of winning tickets or shares. Approval of the legislature is required before conducting any on-line game in which the drawing or selection of winning tickets occurs more frequently than once every twenty-four hours;
- (g) Without limit as to number, the type or types of locations at which tickets or shares may be sold. Electronic scratch ticket sales are subject to the limits and locations specified in section 8 of this act;
 - (h) The method to be used in selling tickets or shares;
- (i) The licensing of agents to sell or distribute tickets or shares, except that a person under the age of eighteen shall not be licensed as an agent;
- (j) The manner and amount of compensation, if any, to be paid to licensed sales agents necessary to provide for the adequate availability of tickets or shares to prospective buyers and for the convenience of the public. Compensation to licensees of electronic scratch tickets shall be governed by section 6 of this act;
- (k) The apportionment of the total revenues accruing from the sale of lottery tickets or shares and from all other sources among: (i) The payment of prizes to the holders of winning tickets or shares, which shall not be less than forty-five percent of the gross annual revenue from such lottery or the percent specified in section 6 of this act for electronic scratch tickets, (ii) transfers to the lottery administrative account created by RCW 67.70.260, and (iii) transfer to the state's general fund. Transfers to the state general fund shall be made in compliance with RCW 43.01.050. The apportionment of total revenues from electronic scratch ticket sales shall be governed by section 6 of this act;

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(1) Such other matters necessary or desirable for the efficient and economical operation and administration of the lottery and for the convenience of the purchasers of tickets or shares and the holders of winning tickets or shares.

- (2) To ensure that in each place authorized to sell lottery tickets or shares, on the back of the ticket or share, and in any advertising or promotion there shall be conspicuously displayed an estimate of the probability of purchasing a winning ticket.
- 9 (3) To amend, repeal, or supplement any such rules from time to 10 time as it deems necessary or desirable.
- 11 (4) To advise and make recommendations to the director for the 12 operation and administration of the lottery.
- NEW SECTION. Sec. 4. (1)(a) The maximum number of player terminals per licensed location is as follows:
 - (i) To the top forty gross receipt charitable or nonprofit operations conducting bingo games, one hundred twenty-five player terminals per licensed location;
 - (ii) To house-banked card rooms operating at least five house-banked card tables and to class 1 horse racing facilities, one hundred twenty-five player terminals per licensed location;
 - (iii) To persons, associations, or organizations primarily engaged in the selling of food or drink for consumption on the premises and bona fide charitable or nonprofit organizations that conduct bingo games, or use punch boards, or pull-tabs other than those in (a)(i) of this subsection as follows:

26		MAXIMUM NUMBER OF
27		PLAYER TERMINALS
28	ANNUAL GROSS	ALLOWED PER
29	GAMBLING RECEIPTS	LICENSED LOCATION
30	\$0 - 200,000	4 (All licensees in this
31		license class shall be
32		guaranteed a minimum
33		of 4 player terminals)
34	\$200,001 - 300,000	5
35	\$300,001 - 400,000	6

1	\$400,001 - 500,000	7
2	\$500,001 - 600,000	8
3	\$600,001 - 700,000	10
4	\$700,001 - 800,000	12
5	\$800,001 - 1,000,000	14
6	\$1,000,001 - 1,250,000	16
7	\$1,250,001 - 2,000,000	18
8	\$2,000,001 - 2,500,000	20
9	\$2,500,001 - 3,000,000	22
10	\$3,000,001 and up	24

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- (b) For purposes of the initial allocation of player terminals under section 5(1) (a) and (b) of this act and (a)(i) and (ii) of this subsection, the number of available machines in each category will be divided by the number of eligible licensees in that category, and no licensee can be awarded more than the resulting arithmetic average in their category.
- (c) For purposes of the initial allocation of player terminals to licensees under section 5(1)(c) of this act and (a)(iii) of this subsection, gross gambling receipts shall be calculated and determined by the commission using a licensee's annual gross gambling receipts for any active years of operation in 1999 through 2002. However, licensees who operated for partial years or less than the full four years during this period shall have their gross gambling receipts annualized and calculated accordingly.
- (2) For purposes of player terminal allocations after the initial January 1, 2003, allocation, the commission shall determine on January 1st of every year the total available number of player terminals to be allocated to licensees in each category established in subsection (1)(a)(i) and (ii) of this section in each allocation pool created in section 5(1) of this act. The number of player terminals that may be awarded to any applicant in that ensuing year shall be determined by dividing the number of available player terminals in an allocation pool by the number of qualified applicants in that pool. Each allocation pool consists of those player terminals not allocated in previous years, forfeited player terminals, plus additional player terminals, if any, that become available as a result of new tribal-state compacts or by amendments to tribal compacts. However, licensees that become eligible for player terminals after January 1st of any given year may

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be awarded player terminals by the commission only to the extent there are player terminals available for allocation within the particular category. Such a licensee may not receive more than the arithmetic average of player terminals as determined by the commission on the immediately preceding January 1st.

- (3) Within each category established under subsection (1)(a)(i) and (ii) of this section, no licensee can be awarded more than the arithmetic average of all the applications divided into the number of player terminals available in the allocation pool. Licensees shall be prioritized within each category established under section 5(1) of this act for review for new or additional player terminals under this section based upon the effective date of their underlying gambling license issued by the gambling commission. Electronic scratch ticket game licensees within each category established under section 5(1) of this act may continue to request additional player terminals subject to the maximum number of player terminals per licensed location established in this section.
- NEW SECTION. Sec. 5. (1) The maximum number of electronic scratch ticket game player terminals shall be determined as of January 1, 2003, for the initial allocation and January 1st of every year thereafter for future allocations as set forth in section 4 of this act and is set at the number authorized at any given time based upon the cumulative number of electronic scratch ticket game player terminals authorized under all current tribal-state class III gaming compacts in the state. Of this maximum number, the following distribution is established:
 - (a) Fifteen percent of the player terminals to the top forty gross receipt charitable or nonprofit operations conducting bingo games licensed as of January 1, 2003, with an established maximum number of player terminals per licensed location as set forth in section 4 of this act;
 - (b) Thirty-six percent of the player terminals to house-banked card rooms operating at least five house-banked card tables and to class I horse racing facilities with an established maximum number of player terminals per licensed location as set forth in section 4 of this act; and
- 36 (c) Forty-nine percent of the player terminals to: (i) Persons, 37 associations, or organizations primarily engaged in the selling of food

or drink for consumption on the premises using punch boards or pulltabs; and (ii) bona fide charitable or nonprofit organizations conducting bingo games other than those in subsection (a) of this section, or using punch boards or pull-tabs with an established maximum number of player terminals per licensed location as set forth in section 4 of this act.

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- (2) Electronic scratch ticket licensed locations under this chapter shall not be licensed for player terminals under more than one of the three categories described in section 4 of this act.
- NEW SECTION. Sec. 6. (1) The payment of prizes to the holders of winning tickets or shares shall not be less than seventy-five percent of the gross annual revenue from electronic scratch ticket games.
 - (2) The net win, less the licensee's proportionate share set forth in subsection (4) of this section, shall be transferred into the electronic scratch ticket account.
 - (3) The money in the electronic scratch ticket account shall be used as follows:
 - (a) One percent of the net win shall be dedicated exclusively for distribution to a contractee under section 9(3) of this act subject to appropriation.
 - (b) Seven percent of the net win shall be dedicated exclusively for distribution to counties and cities as follows:
 - (i) Four and one-half percent shall be distributed to the cities and counties that generate revenue from electronic scratch ticket games generated in each jurisdiction;
 - (ii) Two percent shall be distributed to cities that lost more than ten percent of their unrestricted operating revenues based upon the annual loss of revenue from the repeal of the motor vehicle excise tax. This distribution shall be based upon the motor vehicle excise tax revenue that a city would have received in 2001 as measured by the legislative evaluation and accountability program adjusted to the current fiscal year using the Initiative Measure No. 601 fiscal growth factor. This figure shall be the revenue loss. Based upon the amount of revenue loss adjusted for the current fiscal year, a city shall receive additional funds that ensure it loses no more than ten percent of its unrestricted operating revenues for fiscal year 2000, as defined by the state auditor local government reporting system. If the level

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of revenues exceed the amount necessary to make the required distributions under this subsection (3)(b)(ii), the additional revenues shall be distributed under (b)(iii) of this subsection. If inadequate revenues exist to make the distributions under this subsection, the distributions shall be reduced ratably among the qualifying cities; and

(iii) One-half percent shall be distributed as follows:

- (A) Three hundred thousand dollars shall be distributed to each of the following counties: Asotin, Columbia, Douglas, Ferry, Garfield, Klickitat, Lincoln, Okanogan, Pacific, Pend Oreille, Skamania, Stevens, and Wahkiakum;
- (B) Any revenues that exceed the total amount necessary to make the distributions under (b)(iii)(A) of this subsection shall be distributed among the same counties on a per capita basis;
- (C) If there are insufficient revenues for the distributions under (b)(iii)(A) of this subsection, the distributions to the counties shall be reduced on a per capita basis.
 - (c) Thirty-two percent of the net win shall be used only for:
- (i) Making deposits into the reserve account created by RCW 67.70.250 and into the lottery administrative account created by RCW 67.70.260;
- 21 (ii) Making deposits into the general fund of the money not 22 otherwise obligated under this subsection; and
 - (iii) The purchase and promotion of electronic scratch ticket games and electronic scratch ticket game-related services, including the electronic scratch ticket central computer and central accounting and auditing systems.
 - (d) Sixty percent of the net win shall remain with the individual electronic scratch ticket licensees from which the licensee is obligated to pay its licensing fees and other expenses, including costs associated with owning and operating electronic scratch ticket player terminals.
 - (4) The office of financial management shall require the allotment of all expenses paid from the electronic scratch ticket account and shall report to the ways and means committee of the senate and appropriations committee of the house of representatives any changes in the allotments.

NEW SECTION. Sec. 7. (1) Play of all electronic scratch ticket games is restricted to players who are twenty-one years of age or older. Electronic scratch ticket licenses shall not be issued to agents registered to sell lottery tickets in venues such as convenience stores or other locations readily accessible to minors, but shall be restricted to the authority granted by this chapter.

- (2) Placement of player terminals for electronic scratch ticket games shall only be allowed on premises and in areas of premises meeting the liquor control board's requirements for barrier and signage as contained in WAC 314-02-050(1) as it exists on the effective date of this act and on the premises or portion of the premises where persons under twenty-one are not permitted.
- 13 (3) Duties of employees who are under twenty-one shall comply with 14 the provisions of chapter 66.44 RCW and the rules adopted by the liquor 15 control board under that chapter.
 - NEW SECTION. Sec. 8. (1) Electronic scratch ticket sales are limited to bona fide charitable or nonprofit organizations that conduct bingo games, punch boards, or pull-tabs, as authorized under RCW 9.46.0311; an association or organization primarily engaged in the selling of food and beverages for on-premise consumption that uses punch boards, pull-tabs, or house-banked card games operating at least five house-banked card tables as authorized under RCW 9.46.0325; and class I horse racing facilities. An electronic scratch ticket license may be revoked if the licensee fails to maintain a license in good standing pursuant to RCW 9.46.070.
 - (2) Electronic scratch ticket game player terminals must use a cashless transaction system. Electronic scratch ticket game player terminals must operate off the central computer linked to a central accounting and auditing computer system. Licensees for electronic scratch tickets may own and operate the player terminals as long as the equipment meets certification requirements under this chapter.
 - (3) The commission shall issue a license to sell or distribute electronic scratch tickets only if the licensee has a valid license issued under RCW 9.46.070 and is operating bingo, or using punch boards or pull-tabs under RCW 9.46.0311, using punch boards or pull-tabs or operating social card games of at least five house-banked card tables under RCW 9.46.0325, or is a class I horse racing facility under

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chapter 67.16 RCW. An applicant for licensee of electronic scratch tickets must have maintained a valid license issued under RCW 9.46.070 or have been a valid class I horse racing facility for six months consecutively preceding issuance of a license under this chapter.

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- (4) The commission may contract with private testing laboratories or with a laboratory on contract with the gambling commission for certification that electronic scratch ticket game equipment meets the requirements of this chapter. The manufacturer has the burden of establishing that its equipment meets certification requirements.
- (5) Electronic scratch ticket licensees may lease and/or revenueshare with persons or entities, including route operators, distributors, and manufacturers licensed by the commission to engage in such activity. Contracts between a route operator and a licensee must be in writing, signed by the parties, and submitted to the commission before the installation of player terminals.
- NEW SECTION. Sec. 9. (1) The commission may enforce the provisions of RCW 9.46.071 and 9.46.072 relative to licenses issued for electronic scratch tickets.
- 19 (2) The commission shall require a label on each player terminal 20 that prominently displays the Washington problem gambling helpline 21 number.
 - (3) The department of social and health services shall contract with a nonprofit entity incorporated in Washington state dedicated to the provision of public awareness, education, prevention, helpline services, treatment, professional training, counselor certification, research, and other services necessary to address problem and pathological gambling in Washington to implement a program that addresses problem or pathological gambling.
- 29 NEW SECTION. Sec. 10. There is hereby created and established a 30 separate account, to be known as the electronic scratch ticket account. Such account shall be managed, maintained, and controlled by the 31 commission and shall consist of all net wins received from the sale of 32 electronic scratch tickets or shares, and all other money credited or 33 34 transferred thereto from any other fund or source pursuant to law, less 35 the percentage distribution to electronic scratch ticket licensees 36 specified in section 6(3)(d) of this act. The account shall be a

separate account outside the state treasury. No appropriation is required to permit expenditures and payment of obligations from the account, except that percentage distributions to problem gambling and to the local jurisdictions are subject to appropriation as specified in section 6 of this act.

NEW SECTION. Sec. 11. The commission shall immediately suspend any certification of licensure issued for electronic scratch tickets if the holder of the certificate has been certified pursuant to RCW 74.20A.320 by the department of social and health services as a person who is not in compliance with a support order. If the person has continued to meet all other requirements for certification during the suspension, reissuance of the certificate of licensure shall be automatic upon the commission's receipt of a release issued by the department of social and health services stating that the person is in compliance with the order.

NEW SECTION. Sec. 12. Information obtained by the gambling commission pursuant to its background check investigation under RCW 9.46.070 shall be provided to the commission for each applicant for an electronic scratch ticket license. Applicants for an electronic scratch ticket license are subject to the background check investigation requirements of the gambling commission under RCW 9.46.070.

NEW SECTION. Sec. 13. The commission shall develop rules to implement this act, which include, but are not limited to, rules applicable to circumstances where pending applications within each category established under section 5(1) of this act request more player terminals than are arithmetically available for allocation; rules regarding prizes over six hundred dollars; and implementation provisions that enable the intent of the act to take effect. It is the intent of the legislature to expeditiously implement this act and maximize revenue through operation of electronic scratch ticket games in limited regulated venues, which should not be hampered through the rule-making processes. Rule making shall be expedited in order to meet this intent.

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- NEW SECTION. Sec. 14. If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.
- NEW SECTION. Sec. 15. This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect immediately.
- 9 <u>NEW SECTION.</u> **Sec. 16.** Sections 4 through 13 of this act are each 10 added to chapter 67.70 RCW.

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